

ALTERNATIVE FORECASTS

Global Insight has assigned a 50% probability of occurrence to its December 2007 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 2.2% in 2007, 1.9% in 2008, and 2.9% annually thereafter;
- U.S. nonfarm employment grows 1.3% in 2007, 0.8% in 2008, 1.2% in 2009, and 1.3% in both 2010 and 2011;
- the annual U.S. civilian unemployment rate peaks at 5.1% then gradually declines to 4.7% in 2011;
- consumer inflation is 2.9% in 2007, 2.1% in 2008, 1.6% in 2009, 1.9% in 2010, and 1.8% in 2011;
- the current account deficit is \$755 billion in 2007, \$659 billion in 2008, \$649 billion in 2009, \$673 billion in 2010; and \$699 billion in 2011;
- the federal unified budget deficit is \$163 billion in 2007, \$305 billion in 2008, \$343 billion in 2009, \$348 billion in 2010, and \$307 billion in 2011.

OPTIMISTIC SCENARIO

Global Insight's *Optimistic Scenario* has been assigned a 10% probability of occurrence. In this scenario, the fortunate alignment of several positive factors results in a prosperous path for the economy. In this scenario, enhanced productivity results in higher economic and employment gains and lower inflation and budget deficits. Business fixed investment is stronger than in the baseline case and the residential investment contraction is less severe. Housing starts begin to recover early in 2008 and average 1.15 million units, compared to 1.04 million units in the *Baseline Scenario*. Foreign economic growth is also stronger, boosting U.S. exports and strengthening domestic manufacturing. As a result, real net exports grow faster over the forecast period, despite a stronger dollar. This scenario also assumes oil prices are around \$10 per barrel lower than in the baseline case, while wellhead natural gas prices are also lower.

Under these assumptions, the economic outlook is much brighter than in the baseline case. Real output rises 2.7% this year, 3.7% next year, and 3.4% in 2010. In comparison, it increases just 1.9% in 2008 and by 2.9% in both 2009 and 2010 in the *Baseline Scenario*. Despite the stronger growth, inflation is actually lower in the *Optimistic Scenario* thanks to the higher productivity. Year-on-year consumer price inflation falls into the middle range of the Federal Reserve's 1%-2% tolerance band and remains there throughout most of the forecast period, rather than hovering near the upper boundary, as in the baseline case. As a result, inflation shifts to the back burner as an item for the central bank to worry about.

The stronger national economy lifts Idaho's outlook. This improvement is clearly evident in the employment and income data. First, Idaho nonfarm employment rises faster than in the baseline case in all years except 2011. As a result, Idaho nonfarm employment tops the 722,000-job level in 2011, which is about 4,000 higher than its baseline counterpart. As the table shows, Idaho goods-producing employment does not decline as deeply in 2008 and 2009 and it grows stronger in 2010, and by 2011 there are about 1,500 more of these jobs than in the baseline case. Nongoods-employment has about 2,500 more jobs than in the baseline case in 2011. Idaho real personal income is also stronger in 2011, topping its baseline counterpart by nearly \$100 million.

IDAHO ECONOMIC FORECAST

BASELINE AND ALTERNATIVE FORECASTS

JANUARY 2008

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011
U.S. GDP (BILLIONS)												
Current \$	14,315	14,966	15,691	16,468	14,409	15,119	15,875	16,680	14,091	14,644	15,408	16,289
% Ch	3.5%	4.5%	4.8%	5.0%	4.1%	4.9%	5.0%	5.1%	2.0%	3.9%	5.2%	5.7%
2000 Chain-Weighted	11,779	12,118	12,469	12,832	11,876	12,316	12,736	13,150	11,596	11,793	12,103	12,449
% Ch	1.9%	2.9%	2.9%	2.9%	2.7%	3.7%	3.4%	3.2%	0.3%	1.7%	2.6%	2.9%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	49,986	52,894	56,164	59,874	49,724	52,464	55,499	58,994	50,634	54,092	57,872	62,484
% Ch	5.7%	5.8%	6.2%	6.6%	5.2%	5.5%	5.8%	6.3%	7.0%	6.8%	7.0%	8.0%
U.S. (Billions)	12,204	12,797	13,458	14,163	12,273	12,929	13,593	14,300	12,109	12,632	13,315	14,130
% Ch	4.6%	4.9%	5.2%	5.2%	5.2%	5.3%	5.1%	5.2%	3.8%	4.3%	5.4%	6.1%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	41,717	43,423	45,286	47,424	41,756	43,548	45,405	47,521	41,984	43,905	45,824	48,214
% Ch	3.7%	4.1%	4.3%	4.7%	3.8%	4.3%	4.3%	4.7%	4.2%	4.6%	4.4%	5.2%
U.S. (Billions)	10,185	10,506	10,852	11,219	10,306	10,732	11,121	11,520	10,041	10,253	10,543	10,903
% Ch	2.7%	3.2%	3.3%	3.4%	3.8%	4.1%	3.6%	3.6%	1.2%	2.1%	2.8%	3.4%
TOTAL NONFARM EMPLOYMENT												
Idaho	668,407	682,257	698,550	718,073	668,894	684,814	702,532	722,041	668,044	681,667	698,012	718,289
% Ch	1.6%	2.1%	2.4%	2.8%	1.7%	2.4%	2.6%	2.8%	1.6%	2.0%	2.4%	2.9%
U.S. (Thousands)	139,152	140,872	142,675	144,536	139,985	142,577	144,741	146,692	137,873	138,475	140,145	142,426
% Ch	0.8%	1.2%	1.3%	1.3%	1.4%	1.9%	1.5%	1.3%	-0.1%	0.4%	1.2%	1.6%
GOODS-PRODUCING SECTOR												
Idaho	119,447	118,168	118,865	121,142	119,744	119,642	120,861	122,658	117,707	115,031	116,118	118,607
% Ch	-3.5%	-1.1%	0.6%	1.9%	-3.3%	-0.1%	1.0%	1.5%	-4.9%	-2.3%	0.9%	2.1%
U.S. (Thousands)	21,873	21,603	21,757	22,108	21,996	22,022	22,356	22,792	21,657	20,808	20,756	21,197
% Ch	-2.3%	-1.2%	0.7%	1.6%	-1.8%	0.1%	1.5%	1.9%	-3.3%	-3.9%	-0.2%	2.1%
NONGOODS-PRODUCING SECTOR												
Idaho	548,960	564,090	579,685	596,931	549,150	565,172	581,671	599,384	550,337	566,637	581,894	599,681
% Ch	2.8%	2.8%	2.8%	3.0%	2.9%	2.9%	2.9%	3.0%	3.1%	3.0%	2.7%	3.1%
U.S. (Thousands)	117,279	119,269	120,918	122,428	117,989	120,555	122,385	123,900	116,217	117,667	119,389	121,229
% Ch	1.5%	1.7%	1.4%	1.2%	2.1%	2.2%	1.5%	1.2%	0.6%	1.2%	1.5%	1.5%
SELECTED INTEREST RATES												
Federal Funds	3.6%	4.0%	4.8%	4.8%	4.3%	4.4%	4.5%	4.5%	3.4%	5.2%	6.0%	6.0%
Bank Prime	6.6%	7.0%	7.8%	7.8%	7.3%	7.4%	7.5%	7.5%	6.4%	8.2%	9.0%	9.0%
Existing Home Mortgage	6.0%	6.4%	7.0%	7.0%	6.2%	6.4%	6.7%	6.7%	6.8%	7.4%	7.9%	7.9%
INFLATION												
GDP Price Deflator	1.6%	1.6%	1.9%	2.0%	1.4%	1.2%	1.5%	1.8%	1.7%	2.2%	2.5%	2.8%
Personal Cons Deflator	1.9%	1.7%	1.8%	1.8%	1.3%	1.2%	1.5%	1.6%	2.6%	2.2%	2.5%	2.6%
Consumer Price Index	2.1%	1.6%	1.9%	1.8%	1.4%	1.2%	1.5%	1.5%	3.0%	1.9%	2.5%	2.5%

Forecast Begins the **THIRD** Quarter of 2007

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has been assigned a 40% probability of occurrence. This scenario assumes the housing recession deepens even more than in the baseline case and near-term oil prices spike above \$100 per barrel. This combination sends the economy into a recession. Housing starts drop to 857,000 units in 2008, compared with 1,035,000 units in the baseline. The median existing home price falls more than 10% below the baseline forecast in 2009. Homes sales are also much lower. The housing weakness leads to a consumer confidence retreat. This contraction, along with the drop in wealth associated with falling home prices, causes consumer spending to slow to a crawl in 2008. The bleaker outlook causes businesses to scuttle long-term projects. These weaknesses cause the economy to slip into a three-quarter recession that begins in this year's last quarter. But output is not the only thing to suffer declines in the near future. Employment drops for four straight quarters, losing 186,000 jobs from peak to trough. Industrial production falls for five quarters.

The Federal Reserve lowers the federal funds rate to 3.0% in early 2008 in an attempt to revive the flagging economy. In 2008, the productivity slowdown, high energy prices, and a weakening dollar, rekindle inflation. The Federal Reserve hikes rates to head off inflation, but its efforts prove to be too little, too late. Core inflation creeps upwards, then settles just above 3.0%, which is a full point above the baseline level. Inflation is higher in this scenario because of the lower productivity gains and the weaker dollar, and because the central bank decides to live with inflation at 3.0% rather than risk another recession.

Idaho nonfarm employment is virtually unchanged from the *Baseline Scenario*. In 2011, there are about 200 more jobs than in the baseline case. This difference is the net effect of the lopsided performances of the goods- and nongoods-producing sectors. Goods-producing employment finishes the forecast period with about 118,600 jobs, which is about 2,500 fewer jobs than in the baseline. On the other hand, there are nearly 600,000 nongoods-producing jobs in 2011, or 2,750 more jobs than in the baseline case. This improvement is fed by higher Idaho real personal income which occurs because the lower productivity raises producers' costs, e.g., wages per job. Idaho real personal income is \$790 million higher in 2011 than in the *Baseline Scenario*.